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BANK RECONCILIATION PROCEDURES
FOR MUNICIPALITIES

Prepared

by

Municipal Budgets and Accounts Branch

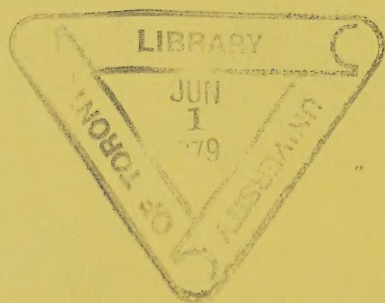
Local Government Division

Ministry of Intergovernmental Affairs

Province of Ontario

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Minister


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BANK RECONCILIATION PROCEDURES
FOR MUNICIPALITIES

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I INTRODUCTION

The term 'bank reconciliation' means accounting for the items of difference between the bank balance as recorded on the bank statement received from the bank with the bank balance as determined by the accounting records of the municipality. These balances are seldom the same.

The bank reconciliation process is an essential and integral part of maintaining proper control over all banking transactions. The reconciliation should detect any discrepancies or errors. The bank may have failed to record accurately deposits or withdrawals from the account. The municipal staff may have neglected to record in the accounting records all deposits received and disbursements made. In short, a reconciliation is a means of checking to ensure that the bank has made no error in its recording of all banking transactions in the account, and that the municipality has maintained accurate and complete records.

This bulletin tells how a bank reconciliation can be done. In addition it shows how to institute controls or safeguards to provide for proper control of cash assets in order to ensure that cash cannot be misappropriated.

It is important to emphasize that the reconciliation be performed on a regular continual basis so that errors can be quickly detected and corrected. The bank reconciliation should be done on a monthly basis and more frequently if warranted.

In summary, the purpose of a bank reconciliation is to:

- provide a periodic review of the banking transactions;
- ascertain and explain the difference between the balance as per the bank statement and the current balance recorded by the municipality;
- disclose discrepancies between the bank's and municipality's records requiring investigation; and
- ensure that the municipality's records are up-to-date.

II DETERMINING THE TRUE LEDGER BANK BALANCE

It is important for a municipality to ensure that its internal banking records are complete and up-to-date prior to performing the reconciliation.

For those municipalities who do not maintain a continuing general ledger balance, a standardized format to serve as a guide in the determining of the true ledger bank balance is described below.

The first step in reconciling the bank account is to determine the actual bank balance from the records of the municipality. This will normally require the municipality to maintain three accounting records as subsidiary books of account: a receipts journal to record incoming funds, a disbursements journal to record outgoing funds and a general journal to record miscellaneous adjustments.

Record the previous month's true
 ledger bank balance as in the
 accounts of the municipality \$

ADD:

Total of funds received during the
 month as recorded in the receipts
 journal \$

Journal voucher debit adjustments
 as recorded in the general journal.
 (An example* would be bank interest
 earned on account as noted on the
 bank statement.) \$

Sub-total _____

LESS:

Total of funds disbursed during the
 month as recorded in the disburse-
 ments journal \$

Journal voucher credit adjustments
 as recorded in the general journal.
 (An example* would be bank service
 charges as recorded on the bank
 statement.) \$

Sub-total _____

Municipality's true ledger bank
 balance as recorded in the books
 of account \$ _____

**By including these transactions from the bank statement, a true ledger balance is achieved. An alternative way would be to regard these amounts as part of the reconciliation process as dealt with in Part IV of this bulletin.*

For very small municipalities the general journal may be dispensed with and all entries made directly to the receipts journal or to the disbursements journal.

III CHECKLIST OF BANK RECONCILIATION PROCEDURES

The actual procedures required to perform a bank reconciliation are noted in sequence below. These should be performed as soon as all the relevant documents and records are available so that if any irregularities or discrepancies are found they can be investigated and followed up with the bank without delay.

- | | <u>check when
completed</u> |
|---|---------------------------------|
| 1) Obtain all relevant documents from the bank such as: monthly bank statements, paid cheques (including negotiated certified cheques), and any debit or credit bank advices. | _____ |
| 2) Ensure that the bank statement balance at the beginning of the month agrees to the last balance recorded on the statement of the previous month. | _____ |
| 3) Check off all paid cheques to the bank statement or cheque listings. If a cheque does not agree with the amount recorded by the bank, advise the bank immediately. | _____ |
| 4) Check off all bank debit slips to the bank statement. | _____ |
| 5) Check off all deposit slips to the bank statement. | _____ |
| 6) Check off all bank credit slips to the bank statement. | _____ |
| 7) Examine the bank statement to ensure all amounts listed have been checked to some underlying document. If an item has not been checked off, investigate further to verify transaction. | _____ |

- 8) Arrange all the cheques (including certified cheques) received for the month in numerical sequence. Ensure that all cheques have been dated and signed by an authorized official or officials of the municipality.*

- 9) Agree all paid cheques for the correct amount and cheque number, payee etc. to the disbursements journal or to the previous month's outstanding cheque list as per that month's bank reconciliation.

- 10) Agree the daily deposit slips to the receipts journal.

- 11) Total the cheques outstanding as at the bank statement cut-off date. This can be performed by reviewing the disbursements journal and listing all those cheques that have not been checked to the disbursements journal or to the previous month's bank reconciliation as per procedure #9 above.

- 12) List and total the outstanding deposits by reviewing the receipts journal for items unchecked after procedure #10 above.

**Section 220 (1) of The Municipal Act states in part:
 . . . every cheque issued by the treasurer shall be signed by the treasurer and by some other person designated for the purpose by by-law or resolution of the council and such other person before signing a cheque shall satisfy himself that the issue thereof is authorized.*

Section 220 (2) states:

*Notwithstanding subsection 1,
 (a) the council of a local municipality having a population of less than 5,000 and the council of a county may provide that cheques issued by the treasurer may be signed by the treasurer only; and
 (b) the council of any other municipality may designate one or more persons to sign cheques in lieu of the treasurer.*

Section 220 (3) states:

The council of any municipality may provide that the signature of the treasurer and of any other person authorized to sign cheques issued by the treasurer may be written or engraved, lithographed, printed or otherwise mechanically reproduced on cheques.

- 13) Where ratepayers are allowed to pay their tax bills at local banks, procedures should be instituted to agree the amounts transferred from the accepting bank to the municipality's own bank with a stamped receipt or stub listing forwarded to the municipality's address as evidence of payment.

- 14) Any funds transferred to another bank account should be cross-checked for the correct amount and dates of withdrawal and deposit to ensure that at any point in time all funds are accounted for.

- 15) All documents such as paid cheques, bank statements, deposit slips, credit and debit memos, should be filed each month to facilitate future access.

Note: It is advisable that cancelled pre-numbered cheques be retained for audit inspection. This will maintain numerical continuity and provide assurance that a cheque is not outstanding. The signature portion of the voided cheque should be cut out so as to prevent unauthorized issuance of the cheque.

IV ACTUAL BANK RECONCILIATION PROCESS

The actual bank reconciliation entails ascertaining and accounting for the difference between the balance recorded on the bank statement and the true ledger bank balance. Normally, the most common reconciling items are outstanding cheques, outstanding deposits, outstanding bank transfers to and from other bank accounts and items appearing on the bank statement requiring adjustment by the municipality in its accounts (i.e. bank service charges, bank interest income etc. if not recorded in the ledger prior to the reconciliation).

Below is a standardized format that can be used to reconcile bank accounts:

Date: _____

Balance per bank statement	\$
ADD:	
Outstanding deposits	\$
Outstanding bank transfers "in"	\$
Miscellaneous adjustments (i.e. items recorded as additions for purposes of ascertaining the municipality's true ledger bank balance but not yet recorded on the bank statement. For example, correction or reversal of a bank error, redeposit of a non-sufficient funds cheque (N.S.F.), reversal of bank service charges, total of proceeds due on maturing investment certificates or securities etc.)*	\$
Sub-total	\$ _____
LESS:	
Outstanding cheques	\$
Outstanding bank transfers "out"	\$
Miscellaneous adjustments (i.e. items recorded as deductions for purposes of ascertaining the municipality's true ledger bank balance but not yet recorded on the bank statement. For example, correction or reversal of a bank error, funds allocated to paying off a bank loan or purchasing of investment securities etc.)*	\$
Sub-total	\$ _____
Municipality's true ledger bank balance as recorded in the books of account.	\$ _____

**Note that if bank entries for service charges and bank interest earned etc., as recorded on the monthly bank statement, have not been picked up in determining the true ledger balance as per Part II of this bulletin, then it is necessary for these items to be regarded as reconciling differences between the bank statement balance and the municipality's true ledger bank balance.*

V BANK RECONCILIATION DOCUMENTATION

All documents involved in the bank reconciliation should be retained. The documents are required for audit purposes and also to serve as a record in investigating any enquiries pertaining to payments and receipts.

In addition to the statutory requirements* the following list of documents should be retained as support for the bank reconciliation:

- monthly bank statements;
- paid cheques (including certified cheques);
- cheque stubs and/or cheque register;
- bank advice memos;
- bank stamped deposit slips;
- bank pass book (if used);
- any other documents maintained by the municipality for banking purposes.

**Section 249 (1) of The Municipal Act states in part that a municipality*

. . . shall not destroy any of its receipts, vouchers, instruments, rolls or other documents, records and papers except,

(a) after having obtained the approval of the Ministry; or
(b) in accordance with a by-law passed by the municipality and approved by the auditor of the municipality establishing schedules of retention periods during which the receipts, vouchers, instruments, rolls or other documents, records and papers must be kept by the municipality or local board.

Subsection (2) states:

. . . where a by-law has been passed by a municipality under clause (b) of subsection 1, copies of its receipts, vouchers, instruments, rolls or other documents, records and papers may be destroyed at any time if the original thereof is subject to a retention period within one of the schedules established by the by-law.

VI POINTS TO CONSIDER WHEN REVIEWING BANK RECONCILIATION

A senior official of the municipality should periodically review the bank reconciliations and the related banking records to ensure that all banking transactions are being properly recorded in the municipality's accounts and also that any errors or discrepancies discovered are promptly resolved. Unusual or irregular transactions should be investigated for explanation.

- 1) Examine the paid cheques received from the bank and ensure that the clearing dates on the cheques are within a reasonable length of time from the cheque's issuance date.
- 2) Ensure that the cheques are properly endorsed by the payee.
- 3) Review the list of outstanding cheques and determine reasons why long outstanding cheques have not been cashed.
- 4) Review the bank reconciliation form and ensure that the amounts recorded are correct.
- 5) Review the bank statement for the entire month and compare daily balances. As detailed in Bulletin F1 'Cash Management', if there is a sizeable surplus balance consideration should be given to investing the funds on a short-term basis.

VII BANK RECONCILIATION PROCEDURES FOR
IMPREST BANK ACCOUNTS

The procedures involved in performing a bank reconciliation of an imprest bank account (for example, a payroll account, and debenture interest accounts) are less involved than for the general bank account. Usually the only difference between the bank balance amount and the true ledger balance is the total of outstanding cheques. Normally the imprest bank account is replenished with funds transferred directly from the general bank account for the exact amount of cheques issued each period; the bank balance usually represents the total of cheques outstanding. The only reconciling procedure necessary is to check off the paid cheques to the cheque register and list all the cheques not checked off as outstanding.

VIII INTERNAL CONTROL

Internal control is the system established to safeguard assets, in this instance cash and funds on deposit with the bank; and to ensure that essential, complete and accurate accounting information is compiled with respect to the particular asset being accounted for. Section 221 of The Municipal Act makes reference to three basic requirements related to bank accounts which are as follows:

. . . the treasurer shall,

- (a) open an account or accounts in the name of the municipality in such of the chartered banks of Canada or at such other place of deposit as may be approved by the council;
- (b) deposit all money received by him on account of the municipality, and no other money, to the credit of such account or accounts, and no other account; and
- (c) keep the money of the municipality entirely separate from his own money and from that of any other person.

The person responsible for the bank reconciliation should not, if at all possible, be the same individual who handles the day to day banking transactions of the municipality. In an office with more than one person it should be possible to allocate the accounting functions in such a manner that each individual's responsibilities will serve as a check on the work of another. To enhance internal control over the banking function, it is desirable that the following general guidelines be observed:

- 1) Numerical continuity of blank cheques should be controlled by an independent official. Where upon delivery of cheques there is a break in the numerical continuity, the missing cheque number should be noted and the supplier advised. A numerical check of the number of cheques in stock should be conducted periodically.
- 2) Blank unused cheques should be kept in a locked drawer or vault and only a limited number of people should have access to the cheques.
- 3) Care should be taken to ensure that cheques are issued in numerical sequence.
- 4) Consideration should be given to the acquisition of a protectograph machine for imprinting the dollar and cent amount on the cheque for those municipalities not having computer facilities.
- 5) The individual in charge of handling cash receipts, such as payment of taxes, should not be responsible where possible for performing the bank reconciliation or for recording amounts used in determining the correct bank balance.
- 6) Cash receipts deposits should be effectively controlled and independently verified prior to deposit in the bank. To enhance control as well as to maximize efficient use of surplus cash funds, deposits should be made on a daily basis.
- 7) The individual responsible for the preparation of cheques for payment and the recording of cheque payments in the cheque record should not where possible be in charge of the bank reconciliation or the recording of amounts used in determining the correct bank balance.
- 8) The individual who performs the reconciliation should either personally pick up the bank statement and paid cheques at the bank each month or be in charge of opening all incoming mail to ensure that no bank documents are mislaid.
- 9) A cheque list should be prepared on a regular periodic basis listing the cheque number, the date of payment, the payee, the amount, and a description of the reason for payment. This list should be presented to council or to a senior official delegated by council to perform this function.

IX BANK RECONCILIATION SERVICES PROVIDED BY BANKS

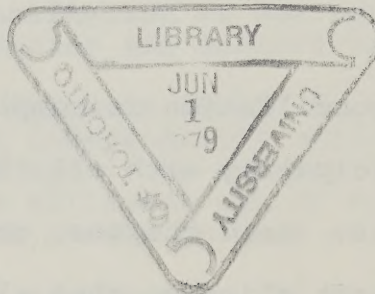
Most chartered banks will provide bank reconciliation services if so requested by the municipality. Depending on the size of the bank branch and the volume of transactions going through the account, the bank will perform the service either on a manual or computerized basis. The cost of this service is normally calculated on a sliding scale of charges based on the time and complexity of the reconciliation. Officials of the municipality should discuss with the bank manager the nature and timing of information to be supplied to the bank, the extent of service expected and the fees payable.

When the reconciliation is completed, the bank should provide the municipality with all the relevant banking documents such as: paid cheques, credit and debit bank advices and deposit slips so that all records and documents will be readily available for inspection and review by the municipality's auditor.

Small municipalities with limited staff may wish to consider having the bank perform some reconciliation procedures in order to alleviate the office work burden as well as to enhance internal control.

X CONCLUSION

To be of maximum benefit a bank reconciliation must be prepared on a regular and timely basis. It should provide useful and reliable information for decision-making purposes, and highlight unusual or significant banking activities. Overall the bank reconciliation function should provide assurance that the cash funds of the municipality are being adequately controlled and accounted for at all times.



If you require assistance or guidance in implementing any aspect of this bulletin please contact your local office of the Field Services Branch, Local Government Division of the Ministry of Intergovernmental Affairs.

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